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Mercantile Stores Company, Inc.

Annual Report

Twelve Months Ended

January 31st

1952

Stores Owned by

MERCANTILE STORES COMPANY, INC.

Principal Stores

J. Bacon & Sons	Louisville, Ky.
The Castner-Knott Dry Goods Co.	Nashville, Tenn.
Duluth Glass Block Store Company	Duluth, Minn.
C. J. Gayfer & Company, Incorporated	Mobile, Ala.
Hennessy Company	Butte, Mont.
The Jones Store Co.	Kansas City, Mo.
The Jones Store Co. (Troost Ave.)	Kansas City, Mo.
The Joslin Dry Goods Company	Denver, Colo.
The Lazarus Store, Inc.	Wilkes-Barre, Pa.
The Lion Dry Goods Company	Toledo, Ohio
The MacDougall & Southwick Company	Seattle, Wash.
The McAlpin Company (4th Street)	Cincinnati, Ohio
The McAlpin Company (6th Street)	Cincinnati, Ohio
Montgomery Fair Co.	Montgomery, Ala.
The People's Store Company	Tacoma, Wash.
Root Dry Goods Company	Terre Haute, Ind.
Thomas C. Watkins, Limited	Hamilton, Ont., Can.
J. B. White & Co.	Augusta, Ga.
J. B. White & Co.	Columbia, S. C.
J. B. White & Co.	Greenville, S. C.

Other Stores

31 Junior Department Stores

25 Appliance Stores

●

Represented in the markets by

MERCANTILE STORES COMPANY, INC. (N. Y.)

(A wholly owned subsidiary company)

128 W. 31st Street, New York, N. Y.

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH
LINDSAY BRADFORD
F. K. BRADLEY
MORGAN A. CASEY
ABBOTT D. CHURBUCK
ASHTON HAWKINS
HAROLD W. JOCKERS
F. G. KINGSLEY
GERRISH H. MILLIKEN, JR.
MINOT K. MILLIKEN
ROGER MILLIKEN
ROBERT B. WHITNEY

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HAROLD W. JOCKERS, *President*
F. K. BRADLEY, *Vice-President*
ABBOTT D. CHURBUCK, *Vice-President*
FREDERICK H. MESERVE, *Vice-President*
MORGAN A. CASEY, *Treasurer*
ASHTON HAWKINS, *Secretary*
E. F. FLANIGAN, *Controller*

Stock Transfer Agent
THE NEW YORK TRUST COMPANY
New York

Registrar of Stock
CITY BANK FARMERS TRUST COMPANY
New York

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,

Wilmington, Delaware,

April 14, 1952

To the Stockholders of

Mercantile Stores Company, Inc.:

This is the annual report of your Company for the fiscal year ended January 31, 1952, including the financial statements and the report from your Company's independent auditors.

PROFIT

Net profit for the year was $3,120,260 compared with $5,107,003 for the previous year. The profit per share of common stock was equal to $2.10 compared with $3.45 for the previous year. Sales for the year aggregated $124,699,947 which was 0.6% less than the preceding year's sales of $125,427,006.

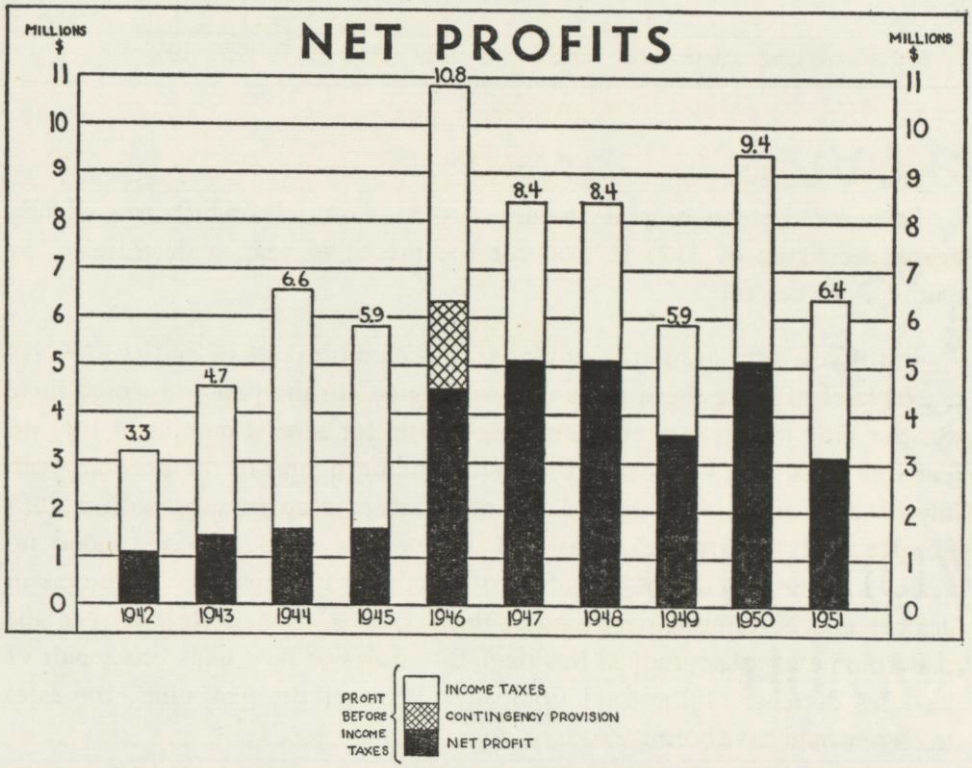
Profit before provision for income taxes amounted to $6,442,260 for the current year compared with $9,397,003 for the preceding year.

The current year per share earnings referred to above of $2.10 were lower than the year before by $1.35. About 30 cents of the drop was caused by higher income tax rates. The remaining $1.05 portion of the drop in per share earnings was mainly the result of three factors: (1) a lower initial markon profit (referring to the spread between the cost of merchandise and the price it is offered for sale) — this was caused in part by governmental restrictions on pricing; (2) higher

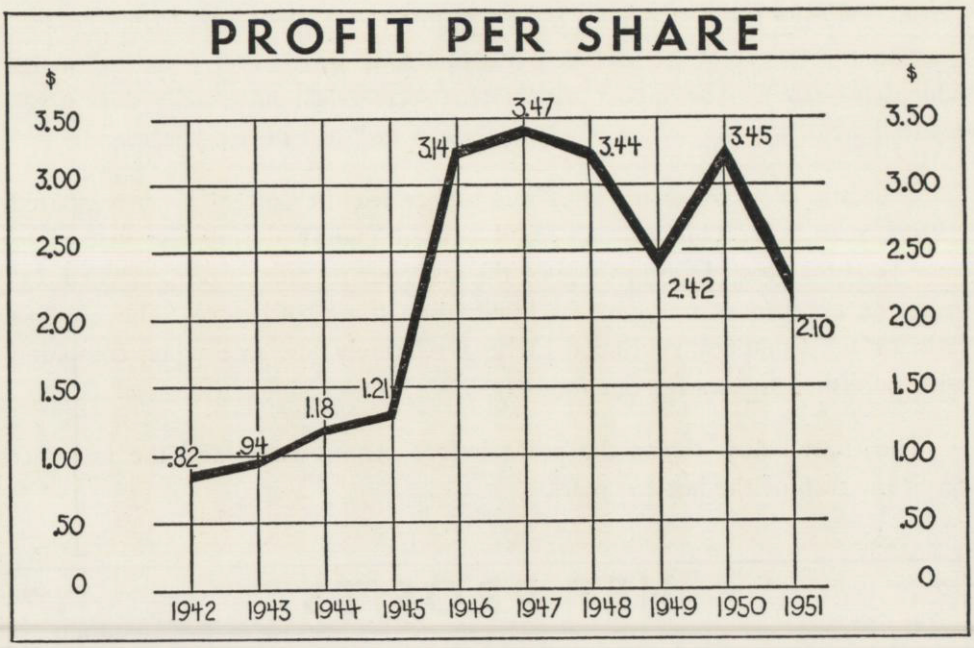
expenses during the first part of the year; and (3) higher markdowns (reductions in the prices of goods from the prices at which they were originally offered for sale). The higher markdowns were taken principally during the earlier part of the year when wholesale prices declined in many lines.

The ratio of expenses to sales was higher for the current year, compared with a year ago. This adverse trend existed mainly during the first eight months of the year. During three of the last four months of our current fiscal year, the expense percentage was lower than the year before. The expense ratio of the Company continued to be a relatively low one when compared with published figures for our industry.

The chart below shows the profit before income taxes and the final net profit for each of the last ten years.



The net profit per share of common stock, for each of the last ten years, is shown on the chart on the following page. The per share amounts for all years are on the basis of the new common stock after the ten for one split-up in 1945.

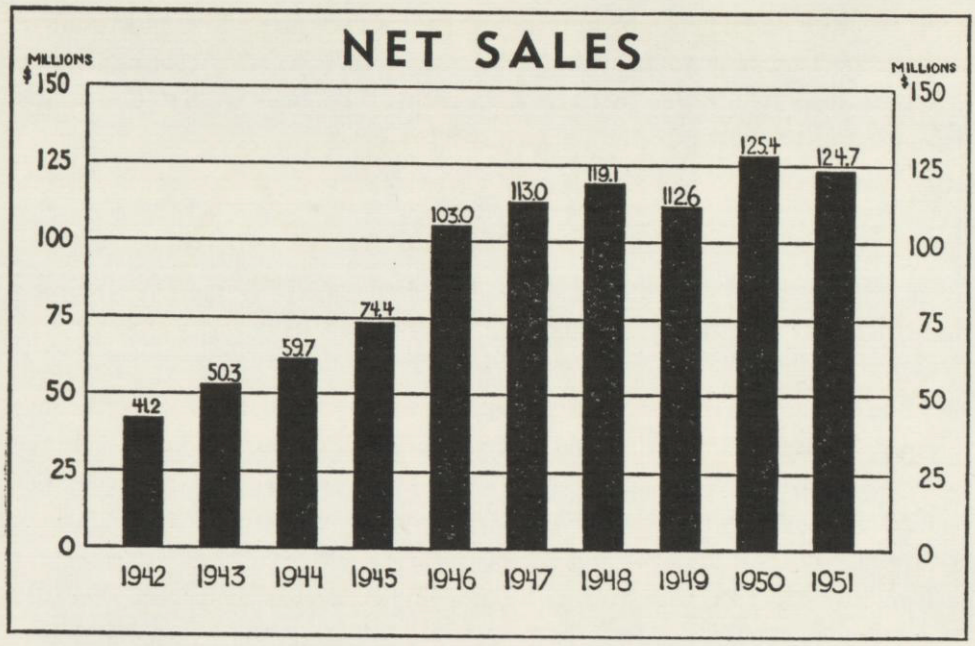


SALES

Sales for the current year amounted to $124,699,947, which was slightly below the figure of $125,427,006 for the preceding year, a decrease of six tenths of one percent.

In the year previous to the current year, the outbreak of hostilities in Korea caused sales to spurt ahead to an unusual degree. In the year just closed there was but little of this sort of thing present, and for several months of the current year sales were well below the corresponding figures of the previous year. July of the current year showed the most severe drop in sales with a 20% decrease, and January, 1952 was 15% behind last year. However, good increases in February and March of 1951 together with fairly good business in October and November, nearly offset the decreases, so that for the year, the total volume of sales dropped less than 1%. Sales of new units offset part of the sales decrease of the total Company. Without the new units, the sales decrease would have been 1.9%.

In reviewing the growth of the Company over the years, it is interesting to note that the sales of the last ten years are only a little short of one billion dollars. The sales for each year during the past ten years are shown in comparative form in the chart at the top of the next page.



DIVIDENDS

The Company again paid $1.00 per share in dividends on the common stock during the year ended January 31, 1952 consisting of four quarterly payments of 25 cents per share. The dividends on the common stock amounted to $1,470,404 for the year. There were approximately 3,300 common stockholders in our Company at the end of the current year compared with approximately 2,800 a year ago. The regular preferred stock dividends were paid during the year which amounted in total to $17,500.

PREFERRED STOCK

The remaining 2,500 shares of 7% preferred stock have been called for redemption at the price of $105 plus accrued dividends. The necessary funds were placed in the hands of the Transfer Agent and notice was sent to the preferred stockholders advising them to surrender their shares for cash on or after February 15, 1952. Most of the shares have been turned in, at the date this is written. There were 86 shareholders who were the holders of this stock. No further dividends will accrue on the preferred stock after February 15, 1952.

The Company has decided not to take action to formally retire the preferred stock (including amendment to the Articles of Incorporation, etc.) because to

do so would reduce the Company's excess profits tax base, and could result in causing the Company to pay higher taxes in future years. Accordingly, the preferred stock which has been reacquired will be held in the Company's treasury, and so shown on the balance sheet.

INVENTORY

Inventories of merchandise amounted to $22,796,904 at January 31, 1952 compared with $28,500,036 a year ago, a decrease of $5,703,132.

During the fall of 1950, inventories became somewhat excessive because of the stimulus of scare buying by consumers generally. This condition of heavy inventories carried into the spring of 1951, but by the fall of 1951, the inventories had been brought well in line. With market conditions now more normal, there is currently no indication of any necessity for extensive advance coverage for merchandise. In fact, the present situation indicates that there will generally be ample merchandise available in 1952, unless of course, there is some drastic change in the international situation.

BASIC POLICIES

In the annual reports for the past several years we have commented on several basic policies which have been fundamental in the operation of the Company for a number of years. These policies continue to be as important in our operation as they have been in the past. Without going into detail, the policies we refer to include offering our merchandise for sale at a definitely lower markup than is used by the average department store, buying a considerable part of our merchandise centrally, and maintaining a lower than average expense ratio.

EXPANSION DURING THE CURRENT YEAR

Two junior department stores were added to the group during the current year.

The Company opened a store in Independence, Missouri in June 1951. The store is operated under the Jones name and identified with our Jones store in Kansas City which is the largest store in Kansas City. The Independence store occupies a new building which the Company erected on leased land.

Another unit was opened in Nanticoke, Pennsylvania during May 1951. This store is operated under the Lazarus name and is identified with our Lazarus store in Wilkes-Barre, Pennsylvania. The building we occupy in Nanticoke is leased.

The new building which the Company has been erecting in Mobile, Alabama is nearly completed, as this is written, and in the near future our Gayfer's store in that city will be operating in its expanded quarters. The new building will more than double the space of the Gayfer's store.

The Company has leased a store in a new shopping center in the Merchants Park section of Denver, Colorado. The store will operate under the name Joslin's and will be identified with our Joslin store in downtown Denver. The new junior store in Merchants Park will occupy quarters in a fine new building erected by the landlord and the store is opening for business near the end of March.

Plans are under way for opening a new junior store in the St. Matthews section of Louisville, Kentucky. Leases have been signed and one piece of land purchased, but it may be over a year from now before building operations are begun. The store will operate under the name of Bacon's and will be identified with our Bacon store in downtown Louisville.

The Company closed 18 of the smaller appliance stores during the current year. In all such cases, the properties were held under relatively short term leases and these stores were closed with practically no loss because of lease commitments. At the end of the year, there were 25 of the smaller appliance stores in operation.

During the current year, the Company closed a small store in Carbondale, Pennsylvania which sold principally furniture and home furnishings.

At January 31, 1952, your Company was operating 20 major department stores, 31 junior department stores and 25 smaller stores selling household appliances.

ADDITIONS AND IMPROVEMENTS TO PHYSICAL PROPERTIES

During the current year the Company invested a total of $4,080,571 for additional real estate and improvements to buildings and fixtures. This total for one year is unusually large for our Company and plans for the coming year call for a much smaller investment of funds for physical properties.

Of the total $4,080,571 invested, $2,770,000 was for the purchase of additional real estate and for new stores, and the balance of $1,310,571 was spent for improvements to existing properties.

The largest outlay for new properties was $1,151,000 for the new building in Mobile, Alabama, referred to in the paragraph above on expansion.

A total of $568,000 was invested in the purchase of two buildings which have been occupied by one of our major stores, as a tenant under lease, for a period of years.

The investment in the new store in Independence, Missouri totaled $424,000 for the new building and fixtures.

Other investments for new properties included a new warehouse in Augusta, Georgia, fixtures for the new junior store in Nanticoke, Pennsylvania, fixtures for the new junior store in the Merchants Park section of Denver, Colorado, and purchase of land for the new junior store in the St. Matthews section of Louisville, Kentucky.

A total of $1,310,571 was invested for improvements to existing properties, which was about equal to the depreciation of $1,350,523 charged against operations for the year. The largest investments of this type were in our Canadian store in Hamilton, Ontario, and in our stores in Seattle, Washington, and Louisville, Kentucky.

Entirely apart from the expenditures outlined above, the Company also spent $735,235 for repairs and maintenance, which was charged against operations.

PROFIT SHARING PLAN

The year just closed is the eleventh year that the Company has maintained its Profit Sharing Plan, with the basic features of the Plan unchanged during that period. It has been of untold value in building our organization of loyal people. For the current year, payments under this Plan were made to 1,293 individuals totaling $2,096,678. For the preceding year payments under this Plan were made to 1,289 people aggregating $2,385,117.

PENSION PLAN

The Company's Pension Plan has now been in operation for seven years. There were 690 employees included in the Plan at the end of the current year compared with 581 a year ago. The requirements of age, length of service, etc.,

which must be met before an individual is eligible to join the Plan, have not been changed during the seven years. However, the number of our people included in the Plan has been gradually increasing since inception of the Plan, as more individuals have become eligible. The Plan is non-contributory (the Company pays all costs). The Company's contribution to the Plan for the year just closed amounted to $302,287 which has been paid over to the Trustee, City Bank Farmers Trust Company. The Company's contribution for the preceding year was $244,867.

The value of the securities and cash held by the Trustee in the Fund at the end of the current year (including the contribution for the current year) was $1,456,177.

BORROWINGS

At January 31, 1952, the Company had no short term borrowings outstanding. At the beginning of the year, the Company owed $2,000,000 on short term loans from banks, and during the spring of 1951 an additional $2,500,000 was borrowed from banks on a short term basis. The entire $4,500,000 was repaid before the end of our fiscal year.

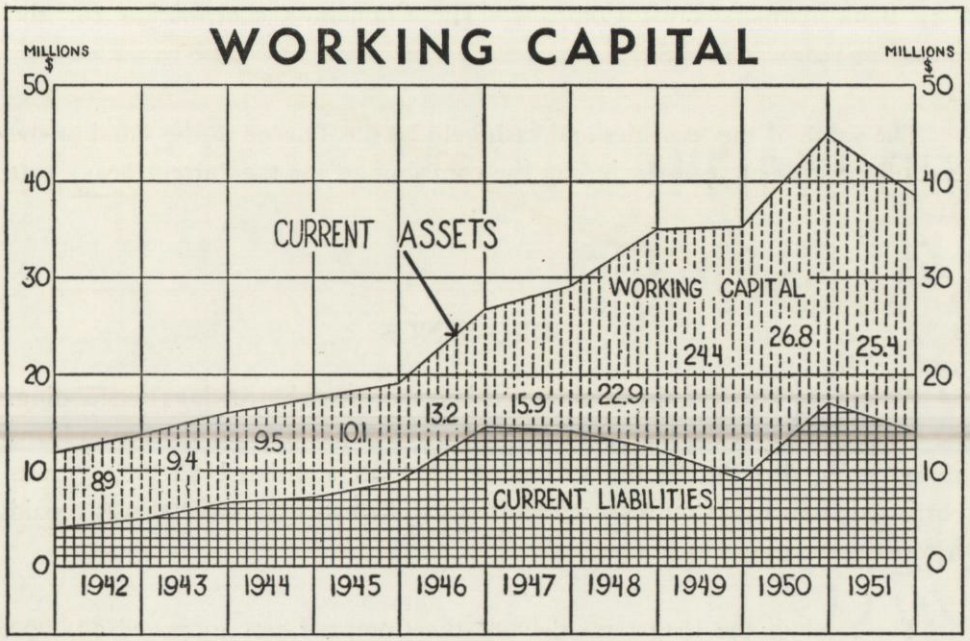
The total of the long term debt of the Company was increased $50,000 during the current year. The long term loans from Metropolitan Life Insurance Company were reduced by payment of $300,000, and two mortgage notes were reduced by payment of $20,000 in total. Two additional mortgage obligations were created during the year. A mortgage of $220,000 was placed against the store property in Independence, Missouri, and a mortgage of $150,000 was assumed in connection with the purchase of real estate formerly leased by one of our major stores.

CURRENT SALES

This report is being written in March and the sales for the first month and a half of the new fiscal year are about 8% behind a year ago. Easter this year on April 13th falls three weeks later than last year, when Easter was on March 25th. March sales this year were somewhat adversely affected by the later Easter.

WORKING CAPITAL

The amount of working capital at the end of the current year was $25,439,097 compared with $26,847,942 a year ago. The working capital at the end of each year for the past ten years is shown in the chart below.

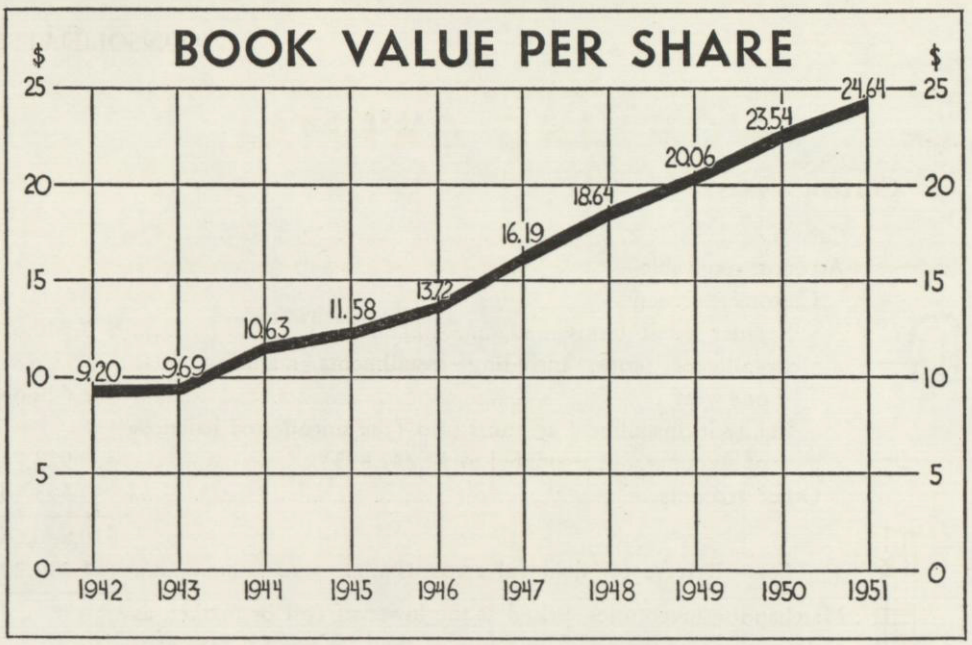


VARIOUS

The earned surplus of the Company was increased during the current year from $21,651,863 to $22,915,344 and the total surplus of the Company at January 31, 1952 amounted to $29,097,841.

Customers' receivables, shown on the balance sheet at January 31, 1952, amounted to $10,293,155 compared with the figure of a year ago of $10,923,163. The Company continued to sell the larger part of its customers' installment contracts to a bank under an arrangement which has been operating for a number of years. The reserve for doubtful accounts remained at about the same level as a year ago with the amount at January 31, 1952 of $1,297,209 compared with $1,315,083. This reserve is a generous one, in the opinion of the management, and the receivables are considered to be in a satisfactory condition.

The book value per share of common stock was $24.64 at January 31, 1952. The book value per share of common stock at the end of each year for the past ten years is shown in the chart below.



The financial statements and the report of our auditors are given on the succeeding pages, and following that is a summary of the highlights of our operations for the past fourteen years, together with a ten year comparison of balance sheets.

We believe the strength of a Company lies primarily in its people, and the loyal cooperation of the people in our Company is one of the most valuable assets we have. We want to express our appreciation of that loyalty. We value our relationships with the thousands of manufacturers and other vendors who have supplied us with high quality merchandise, and extend to them, also, our appreciation of their cooperation with us.

Respectfully submitted,

F. G. KINGSLEY,
Chairman of the Board

HAROLD W. JOCKERS,
President

MERCANTILE STO

(a Delaware

AND SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS

Current Assets:

Cash		$ 6,200,137
Accounts receivable—		
Customers accounts—		
Regular retail terms	$ 7,740,673	
Installment terms, including installments maturing after one year	1,628,693	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $9,237,893)	923,789	
Other accounts	553,506	
	$10,846,661	
Less—Reserve for doubtful accounts	1,297,209	9,549,452
Merchandise inventories, priced at the lower of cost or market, as determined by the retail inventory method, except for merchandise in transit which is priced at cost		22,796,904
Unexpired insurance premiums, prepaid rent, etc		1,154,206
TOTAL CURRENT ASSETS		$39,700,699

U. S. Government Securities, at cost (deposited in escrow as guarantees of performance under leases) 175,560

Fixed Assets:

Land and buildings owned, buildings on leased ground and leaseholds, and building improvements, at cost, less reserve for depreciation of $5,357,410	$11,737,500	
Store fixtures, etc., at cost, less reserve for depreciation of $2,789,547	4,872,929	16,610,429
		$56,486,688

NOTE: Under a loan agreement, dividends on income (less preferred dividends) earned lative basis. At January 31, 1952, earnings

RES COMPANY, INC.

corporation)

COMPANIES

SHEET – JANUARY 31, 1952

LIABILITIES

Current Liabilities:

Accounts payable	$ 6,592,239
Dividends payable	373,250
Accrued taxes (other than Federal income), salaries, rent, etc.	3,409,015
Reserve for Federal taxes on income	3,508,348
Current maturities of long-term debt	378,750
TOTAL CURRENT LIABILITIES	$14,261,602

Long-Term Debt:

Notes payable, 3⅜%, due $250,000 annually	$ 4,000,000	
Other notes payable (including mortgage notes payable, $1,426,516)	1,526,516	5,526,516
Deferred Carrying Charges on Installment Accounts		440,566

Capital Stock and Surplus:

Capital stock—			
Preferred stock, 7% cumulative, $100 par value, callable at $105 per share—			
Authorized and issued, 10,410 shares	$1,041,000		
Less—Held in treasury, 7,910 shares	791,000		
Outstanding, 2,500 shares (called for redemption on February 15, 1952)		$ 250,000	
Common stock, par value $3.66⅔ per share—			
Authorized and issued, 1,582,380 shares	$5,802,060		
Less—Held in treasury, 106,881 shares	391,897		
Outstanding, 1,475,499 shares		5,410,163	
Surplus prior to February 1, 1935 (no change during the year)		6,182,497	
Surplus reserve for inventories and contingencies		1,500,000	
Earned surplus since February 1, 1935		22,915,344	36,258,004
			$56,486,688

the common stock are limited to 70% of net subsequent to January 31, 1948, on a cumu- free of this restriction were $5,516,287.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS

For the Year Ended January 31, 1952

PROFIT AND LOSS

Net sales, including sales of leased departments		$124,699,947
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $1,350,523		118,911,164
Operating profit		$ 5,788,783
Other income (net):		
Carrying charges on installment accounts, and miscellaneous net income	$1,202,155	
Less—Interest expense	548,678	653,477
Profit before provision for income taxes		$ 6,442,260
Provision for income taxes:		
Federal taxes	$3,212,000	
State and Canadian taxes	110,000	3,322,000
Net profit for the year		$ 3,120,260

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance, January 31, 1951		$ 21,651,863
Net profit for the year		3,120,260
		$ 24,772,123
Dividends declared:		
For the current year—		
Preferred stock—$7.00 per share	$ 17,500	
Common stock—$1.00 per share	1,470,404	
	$1,487,904	
Dividend declared on common stock for the first quarter of the coming year—$.25 per share	368,875	1,856,779
Balance, January 31, 1952		$ 22,915,344

AUDITORS' REPORT

To the Board of Directors and Stockholders,
Mercantile Stores Company, Inc.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1952, and the related statements of consolidated profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and earned surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1952, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
April 2, 1952.

MERCANTILE STO

AND SUBSIDIARY

FOURTEEN YEAR COMPARISON OF SALES,

Fiscal Year Ended January 31	Net Sales	Profit Before Income Taxes	Income Taxes	Net Profit
1952	$124,699,947	$ 6,442,260	$3,322,000	$3,120,260
1951	125,427,006	9,397,003	4,290,000	5,107,003
1950	112,607,776	5,932,129	2,325,000	3,607,129
1949	119,091,512	8,369,725	3,243,000	5,126,725
1948	113,012,702	8,444,538	3,286,000	5,158,538
1947	103,007,184	10,800,760	4,618,000	4,682,760**
1946	74,407,149	5,894,901	4,084,000	1,810,901
1945	59,668,304	6,633,941	4,854,000	1,779,941
1944	50,277,807	4,700,875	3,276,760	1,424,115
1943	41,173,113	3,340,264	2,118,645	1,221,619
1942	34,867,853	1,912,941	812,165	1,100,776
1941	29,509,394	939,991	278,548	661,443
1940	27,619,565	274,646	72,059	202,587
1939	25,467,539	*486,264**	3,850	*490,114**

* Italics indicate loss or deficit.

** After deducting special provision of $1,500,000 for possible future decline in market

*** Principally dividends on common stock, annual dividends on preferred stock ranged from

RES COMPANY, INC.

COMPANIES

EARNINGS AND EARNED SURPLUS

Net Profit Per Common Share (After 10 for 1 Splitup in 1945)	Dividends Paid***	Earned Surplus (End of Year)	Book Value Per Common Share (After 10 for 1 Splitup in 1945)
$2.10	$1,487,904	$22,915,344	$24.64
3.45	1,490,535	21,651,863	23.54
2.42	1,503,260	18,035,395	20.06
3.44	1,505,921	15,931,526	18.64
3.47	1,506,896	12,310,722	16.19
3.14	1,506,896	8,659,080	13.72
1.21	395,981	5,483,216	11.58
1.18	398,756	4,068,296	10.63
.94	405,106	2,687,111	9.69
.82	398,388	1,668,102	9.20
.73	330,631	844,871	8.58
.43	331,344	74,726	8.07
.11	42,504	*255,373**	7.85
*.36**	46,907	*415,456**	7.59

value of inventories and other contingencies.

$46,907 in earliest year to $17,500 in latest year.

MERCANTILE STO

AND SUBSIDIARY

TEN YEAR COMPARISON OF

ASSETS	*January 31,* 1952	1951	1950	1949
Cash	$ 6,200,137	$ 4,787,324	$ 4,739,075	$ 6,434,661
Receivables, less Reserves	9,549,452	10,087,958	8,977,615	8,534,538
Merchandise Inventories	22,796,904	28,500,036	19,284,683	18,028,742
Prepaid Expenses	1,154,206	989,544	999,560	954,283
TOTAL CURRENT ASSETS	$39,700,699	$44,364,862	$34,000,933	$33,952,224
Other Assets	175,560	372,812	313,109	278,756
Fixed Assets (Net)	16,610,429	13,880,381	12,685,167	12,345,179
	$56,486,688	$58,618,055	$46,999,209	$46,576,159
LIABILITIES				
Current Liabilities	$14,261,602	$17,516,920	$ 9,625,259	$11,054,879
Long-Term Debt	5,526,516	5,530,000	5,355,000	5,675,000
Reserves and Deferred Income	440,566	576,612	504,781	395,980
Capital Stock	5,660,163	5,660,163	5,721,140	5,761,140
Surplus Reserve	1,500,000	1,500,000	1,500,000	1,500,000
Surplus	29,097,841	27,834,360	24,293,029	22,189,160
	$56,486,688	$58,618,055	$46,999,209	$46,576,159
Net Working Capital	$25,439,097	$26,847,942	$24,375,674	$22,897,345

RES COMPANY, INC.

COMPANIES

CONDENSED BALANCE SHEETS

January 31,					
1948	*1947*	*1946*	*1945*	*1944*	*1943*
$ 3,349,732	$ 2,668,226	$ 3,058,809	$ 3,542,395	$ 3,652,070	$ 2,551,575
6,264,915	4,629,841	2,973,050	2,559,611	2,369,795	2,781,126
18,617,899	18,632,200	11,116,080	7,817,194	6,956,591	6,623,978
468,939	679,625	692,000	409,297	399,839	408,734
$28,701,485	$26,609,892	$17,839,939	$14,328,497	$13,378,295	$12,365,413
329,508	268,621	280,826	624,429	529,752	276,726
9,948,169	8,944,064	7,361,003	6,298,478	5,944,141	6,125,551
$38,979,162	$35,822,577	$25,481,768	$21,251,404	$19,852,188	$18,767,690
$12,790,334	$13,404,957	$ 7,724,450	$ 4,866,107	$ 3,963,093	$ 3,514,212
95,000	105,000	115,000	125,000	800,000	1,200,000
227,532	97,966	103,528	135,439	187,922	247,391
5,797,940	5,797,940	5,797,940	5,798,928	5,956,428	5,880,351
1,500,000	1,500,000	—	—	—	—
18,568,356	14,916,714	11,740,850	10,325,930	8,944,745	7,925,736
$38,979,162	$35,822,577	$25,481,768	$21,251,404	$19,852,188	$18,767,690
$15,911,151	$13,204,935	$10,115,489	$ 9,462,390	$ 9,415,202	$ 8,851,201